

Memorandum

TO: Reema Griffith

FROM: Steve Pickrell and Ryan Greene-Roesel, Cambridge Systematics

DATE: May 6, 2008

RE: Draft long list of possible sources of funding for Washington State Ferries

This memorandum presents an initial “long list” of funding sources that could support Washington State Ferries (WSF) capital and/or operating expenses. The goal of presenting the list to the Commission at this stage is to:

- Solicit Commission feedback as to whether all reasonable funding candidates have been included; and to
- Determine whether any funding candidates can be removed from consideration at this time.

After incorporating Commission feedback, the Cambridge Systematics team will begin assessing how each source performs according to the evaluation criteria listed at the end of this memorandum.

1. List of Funding Sources

The following draft list is intended to cover a wide range of sources that could be used to support the ferry system, including taxes, fees, and ferry system revenues. Many of these sources are already in place, but have potential to produce additional revenue. Others have not yet been tried in the state, and may require enabling legislation.

Funding Source	Possible Area of Application	Comments / Examples / Options
Taxes		
Fuel tax	Statewide, sub-state*	Examples: raise fuel tax; index fuel tax; sales tax on fuel; county fuel tax (counties are currently authorized to charge additional fuel taxes).
Vehicle property tax	Statewide, sub-state	Note: similar to motor vehicle excise tax. Counties are currently authorized to levy a percentage on assessed value annually.
Sales taxes	Statewide, sub-state	Examples: general sales tax increase; on vehicle parts, on vehicle sales.
Statewide tax on tourism-related businesses	Statewide	Examples: rental car tax; hotel tax; other forms of tourism-related taxes.
Special assessment districts	Sub-state	Examples: Special tax (property, sales, parcel, hotel, restaurant) in areas benefiting from ferry service. County Ferry Districts (funded by property or ad valorem taxes) are a specific example currently authorized in law.
Commercial parking tax	Sub-state	Note: counties / cities / districts can levy taxes on commercial parking.
Transit district tax	Sub-state	Note: transit districts may levy household utility taxes and business and occupation taxes.
Charges and Fees		
Vehicle fees	Statewide	Examples: vehicle license, registration, and weight fees.
Commercial vehicle / freight related fees	Statewide	Examples: weight-distance fee or container fee.
Tolls	Statewide, sub-state	Note: state law currently does not authorize use of toll revenues outside the tolled facility.
Roadway user fees based on VMT	Statewide	Note: Oregon DOT has conducted a pilot test of a mileage-based user fee.
Development or transit impact fees	Sub-state	Example: one-time fee on new development with purpose of maintaining or improving transit service.
Ferry System Earned Revenue		
Increase revenue from fares	Ferry system	Examples: flat fare increase; peak pricing; route-pricing; seasonal pricing; fuel surcharge; vehicle size/space surcharge; eliminate or reduce certain discounts.
Increase revenue from concessions	Ferry system	Examples: increase revenue from parking, advertising, on-board and terminal concessions.
Fees on new offerings	Ferry system	Examples: reservation system fees; preferred loading lane fees.
* "Sub-state" means the tax or fee may be applied either at the city level, the county level, or on a combination thereof. Some taxes or fees (such as special assessment districts) may also be applied on portions of cities or counties.		

2. Evaluation criteria

The following evaluation criteria will be used to evaluate the list:

Yield. The yield of a funding source is the amount of revenue it is capable of generating.

Yield depends on the level of the proposed tax or fee, but is constrained by several factors, including:

- Size of the entity being taxed (e.g. the population of the state of Washington, number of businesses served by ferry, etc.). Yield increases with the number of entities being taxed.
- Public acceptance (see below) sets the upper bound of the tax or fee level.
- Administrative effectiveness (see below) sets the lower bound of the tax or fee level because at a certain point, the cost of collecting revenue is greater than the revenue itself.

Estimating yield will require making assumptions about the level of the tax or fee; how it is applied; on what basis or frequency it is collected; and other factors. For existing funding sources, these assumptions will be guided by the history of the application of the tax or fee in Washington State. That is, the amount of a proposed increase in an existing tax or fee will be guided in part by how that tax or fee has been increased in the past. For new funding sources, the amount of the tax or fee will be guided in part by the levels of similar taxes or fees in other states.

Reliability. Reliability refers to the stability of the funding stream over time.

Reliability depends both on the nature of the funding source and on the entity to which it is applied. A flat gasoline tax is less reliable over time because it depreciates with inflation, whereas an indexed gas tax is more reliable because it varies with inflation. If the tax is applied to an entity in flux (e.g. tax applied to vehicle sales when the number of vehicles being sold is falling) it will be less reliable.

Estimating the reliability of the funding source will require analyzing trends that may have implications for reliability, such as the implications of ferry ridership trends for future fare revenues.

Public acceptance. While any new taxes or fees may be objectionable to the public, funding sources that are somewhat removed from the transportation project or service they are supporting tend to be particularly unpopular.

Public acceptance will be gauged through the results of the ferry user survey and through discussion with commission members.

Administrative effectiveness. This is the cost and ease of administering the fee or tax; that is, the degree to which evasion and bureaucracy can be minimized. The easiest fee-collection systems are those that piggyback on other payments at the point of sale, including fuel taxes and sales taxes. Strategies that require the taxed entity to make a unique payment solely for the purpose of paying the fee or tax are considered less administratively effective. Those that require completely new and untested collection systems (e.g. a tax on vehicle miles traveled) are considered the least administratively effective.

In gauging administrative effectiveness, it will also be important to consider the extent to which it will be necessary to provide tax or fee rebates for a given funding source, since providing such rebates is common practice in Washington State and is an added administrative burden.

Economic efficiency. Economic efficiency is the extent that a strategy provides clear pricing signals. Strategies with high economic efficiency are those that help make the marginal prices of goods and services reflect their true costs. Strategies with low economic efficiency are those that distort the market by collecting fees that are unrelated to the services they help fund.

Fees on ferry users would be more economically efficient because they send a direct price signal to consumers of ferry service. A statewide sales tax, by contrast, has no direct link to the ferry system, and would not signal to ferry users the true cost of the ferry system.

Equity. The extent to which a funding source (tax or fee) equitably burdens different groups of people. Equity considerations may be geographic (e.g. the extent to which citizens living in different parts of the state must pay for the ferry system); income-related (e.g. the extent to which the tax or fee burdens different income groups); and user-group related (e.g. the extent to which the tax or fee burdens ferry users versus non ferry-users).

The majority of ferry operating costs are currently funded through fees on ferry users. Capital costs are funded primarily through fees on those who own and operate a vehicle in the state (i.e. through gas taxes, vehicle registration and licensing fees), regardless of whether or not they use the ferry system. Federal grants have also historically provided a substantial percentage of capital revenue.